

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, May 19, 2006
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chair of the ASRS Board, called the meeting to order at 8:38 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Dr. Keith Meredith, Chair
Mr. Karl Polen, Vice Chair
Mr. David Byers
Mr. Chris Harris
Mr. Michael Townsend
Mr. Lawrence Trachtenberg (via teleconference)
Mr. Steven Zeman

Absent: Mr. Jaime Gutierrez
Ms. Anne Mariucci

A quorum was present for the purpose of conducting business.

2. Approval of the Consent Agenda

Motion: Mr. Dave Byers moved to approve Refunds, Death Benefits and Retirements;

And

Approve the System Transfers;

And

Approve the minutes of the April 21, 2006, Regular Session of the ASRS Board;

And

Approve the Applications and Agreements with the Following Employers;

- Regional Public Transportation Authority (RPTA)
- Northern Arizona Intergovernmental Public Transportation Authority

Mr. Karl Polen seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

3. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decision

Dr. Keith Meredith informed the Board that a new practice will occur during agenda item number three. An ASRS staff member will present a brief synopsis of any individual appealing to the Board before the Trustees will be asked to make a motion.

Ms. Lisa King, Management Analyst, provided a brief history of Judith Moler's case to the Board.

Ms. Moler's legal counsel, Mr. Bill Holder, addressed the Board. Mr. Holder stated that although Ms. Moler acknowledges that she failed to meet certain deadlines in the service purchase process the Board should consider her case based on her good faith efforts. Ms. Moler claims that she failed to respond in a timely matter because she never received certain correspondence from the ASRS.

Mr. Byers asked Ms. King if the ASRS acknowledged that Ms. Moler never received the piece of correspondence in question. Ms. King stated that the ASRS has a record of the correspondence being mailed.

Motion: Mr. Steve Zeman moved to accept the decision of the Administrative Law Judge.

Mr. Michael Townsend seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions and 2 excused the motion was approved.

Ms. King provided a brief history of Laura Han's case to the Board.

Motion: Mr. Dave Byers moved to accept the decision of the Administrative Law Judge.

Mr. Steve Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions and 2 excused the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding 2006 ASRS Legislation

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Shirley Gunther, Government Relations Officer, presented the current status of ASRS legislative initiatives. The Board was updated regarding HB 2082, HB 2101, HB 2103, HB 2105, HB 2163, HB 2335, HB 2340, SB 1167, SB1168, and SB 1169.

5. Presentation, Discussion and Appropriate Action Regarding the Actuary Request for Proposal (RFP)

Mr. Anthony Guarino, Deputy Director, Chief Operations Officer, and Mr. Bob Wittsell, Procurement Manager, presented information to the Board regarding the Actuary Request for Proposal (RFP). Mr. Guarino noted that the ADOA designated the ASRS as the lead for procuring actuarial services statewide, and an evaluation team was organized and reviewed proposals for providing actuarial services to the ASRS.

The primary team consisted of the Board Chairperson, the Deputy Director, the agency Procurement Officer, and one staff analyst from the External Affairs Division. The Director and Assistant Director of External Affairs participated in a review of five finalists.

The team interviewed and was impressed by representatives from four of five finalists, and believes the mixture of talent and expertise implicit in its recommendation will add value to the agency's understanding and application of actuarial methods, assumptions and plan design issues for years to come.

Motion: Mr. Steve Zeman moved to approve contract awards for the following firms:

Buck Consultants - to be retained as lead actuary and for special projects as needed;

And

Cavanaugh/Macdonald Consulting, The Segal Company and Mercer Human Resource Consulting - to be retained as backup lead actuaries and for special projects as needed.

Mr. Michael Townsend seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Quarter Ending 3/31/06

Mr. Terry Dennison, Principal, Mercer Investment Consulting, presented an overview of the Total Fund performance for the period ending March 31, 2006, highlighting specific areas of interest and concern.

Mr. Dennison reported on the Total Fund Performance for the period ending March 31, 2006.

	Quarter	1 Year	3 Years	5 Years	10 Years
Total Fund	4.7%	13.0%	16.9%	6.7%	9.1%
Benchmark*	3.7%	11.2%	15.4%	5.7%	7.8%
Excess Return	1.0%	1.8%	1.5%	1.0%	1.3%

* Interim Benchmark: 55% S&P 500, 28% LB Aggregate, 16% MSCI EAFE/ACW ex. US(1), and 1% NCREIF+100 bps.
Note: Interim Benchmark incorporates a proration of 5% real estate.

Policy History:

- 7/1/87-12/31/91 – 60% S&P 500/40% LB Aggregate
- 1/1/92-12/31/94 – 50% S&P 500/40% LB Aggregate/10% EAFE
- 1/1/95-6/30/97 – 45% S&P 500/40% LB Aggregate/15% EAFE
- 7/1/97-12/31/99 – 50% S&P 500/35% LB Aggregate/15% EAFE
- 1/1/00-9/30/03 – 53% S&P 500/30% LB Aggregate/17% EAFE
- 10/1/03-present – 53% S&P 500/26% LB Aggregate/15% MSCI EAFE/ACW ex. US(1)/6% NCREIF+100 bps.

(1) MSCI EAFE/ACW ex. US Benchmark is the MSCI EAFE prior to 10/1/05 and the MSCI ACW ex. US thereafter.

7. Presentation, Discussion and Appropriate Action Regarding the U.S. Large Cap Equity Managers Reporting for the Quarter Ending 3/31/06

Mr. Gary Dokes, Chief Investment Officer, Mr. Dan Kapanak, Manager of Research and Development, and Mr. Terry Dennison presented information to the Board regarding the U.S. Large Cap Equity Managers reporting for the quarter ending March 31, 2006.

Mr. Dokes stated that as of April 30, 2006, the total market value of the ASRS U.S. Equity Large Cap asset class was \$9.3 billion, or approximately 38% of the ASRS total fund. The U.S. Equity Large Cap asset class policy target range is 43% +/- 5%. Since the inception of the Large Cap Composite in July 2002, the asset class has outperformed by 27 basis points. The Large Cap Equity Asset Class has a core profile and is sector neutral.

Franklin Portfolio Associates outperformed its benchmark for three years and since inception. The portfolio placed below the universe median for all periods evaluated.

INTECH outperformed its benchmark for all periods evaluated. The portfolio placed below the universe median for the recent quarter and one year.

LSV Assset Management outperformed its benchmark and the universe median for all periods evaluated.

State Street Global Advisors underperformed its benchmark and the universe median for the recent quarter and three years. The portfolio outperformed its benchmark for the one-year period and since inception.

8. Presentation, Discussion and Appropriate Action Regarding the Approval of the Revised ASRS Real Estate Plan

Mr. Gary Dokes, Mr. Eric Rovelli, Real Estate Portfolio Manager, and Ms. Linda Assante, Principal, Townsend Group, presented information regarding the Revised ASRS Real Estate Plan to the Board.

Mr. Dokes stated that on March 17, 2006, the ASRS Board approved the hiring of The Townsend Group as the ASRS' Real Estate Consultant to replace Courtland Partners. Pursuant to this date, discussions between Townsend and the Real Estate Committee were held and resulted in modifications to the ASRS Real Estate (RE) Strategic Plan. The Real Estate Strategic Plan was presented to the IC on May 2, 2006.

Mr. Rovelli presented information regarding the major differences between the existing Real Estate Plan and the proposed plan.

PROGRAM ELEMENT	EXISTING ASRS PROGRAM	PROPOSED ASRS PROGRAM
Role of Real Estate		
	Primary goal is diversify overall portfolio; attractive risk adjusted returns and current income	Clarification of order of importance, the addition of alpha over actuarial assumptions, program design and adding incremental returns to the total portfolio, and finally the deletion of current income
Benchmark		
	NPI + Premium	Gross NPI MSCI REIT Index
Return Targets		
	9.6% Long term expectation NPI +100 bps	Minimum net of fee return target of 9% (100 bps over 8% actuarial assumption) Net of fee returns to meet or exceed gross NPI + 100 bps
Portfolio Structure		
	70/30 Core/Non-core	Minimum 40% Private Core Maximum 20% Public Core Maximum 60% Non-Core
REITs		
	10% +/- 5% and within Core	Increased to 20% Maximum
Roles for Participants		
	Provided	REC to make tactical allocations through the implementation of the approved Investment Plan
Risk Policies		
Investment Structures	Core IMA; Non-Core Commingled	Individually Managed Accounts (Separate Accounts including JVs) and Commingled Funds approved; vehicle selection will vary by strategy and best opportunity
Manager Diversification*	Limit to 30%	No Changes
Vehicle Diversification*	Limit to 30%	No Changes
Pro-rata risk	Not addressed	Limit position in any commingled fund to 20%

Property Diversification*	Ranges for type and location	Maximum of 40% without approval; use of under/over weighting for tactical alpha
		Expanded geographic diversification to include international across all risk profiles. Max 30%
Leverage*	50% port; 45% core; 75% non-core	Total Fund 50%; Maximum of 30% in Core IMA; Maximum of 30% in Core Commingled without approval; Non-Core controlled through fund selection and RE Comm.
Appraisals	Direct assets every three years; funds with market policy	No Changes

* Initial allocations, i.e. implementation of the Real Estate Program may result in temporary variances to the policy. Variances will be reviewed and approved by the Real Estate Committee and discussed and presented to the IC/Board.

Motion: Mr. Larry Trachtenberg moved to adopt the revised Real Estate Strategic Plan.

Mr. Steve Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions and 2 excused the motion was approved.

9. Director's Report

Mr. Paul Matson, Director, recognized Ms. Susanne Dobel, Manager of External Affairs, on her graduation from ASU's Certified Public Manager Program.

Mr. Matson had no further items to report.

10. Presentation, Discussion and Appropriate Action Regarding the Election of Board Officers

Mr. Paul Matson stated that pursuant to the ASRS Board Governance Handbook, the ASRS Board will elect a Board Chairperson and Vice Chairperson each fiscal year. Since there is no Board Meeting in June, the Board officers should be elected during the Regular Meeting of the Board in May.

Motion: Mr. Larry Trachtenberg moved that because of his leadership and accomplishments as Chairperson, and to assure the continued effectiveness of the Board, to make an exemption from the two-term constraint stated in the ASRS Board Governance Handbook and nominate Keith Meredith to serve a third term as Chairperson of the Board for FY 2006/2007.

Mr. Steve Zeman seconded the motion

By a vote of 7 in favor, 0 opposed, 0 abstentions and 2 excused the motion was approved.

Motion: Mr. Steve Zeman moved that because of his demonstrated leadership as Chair of the Operations Committee, Michael Townsend be nominated to the role of Vice Chairperson of the ASRS Board for FY 2006/2007.

Mr. Zeman also stated that he would like to publicly acknowledge the excellent service, intellect, and commitment that Karl Polen has demonstrated as Vice Chair of the Board, and appreciate his willingness to continue to serve as both an investment expert and strategic advisor for the ASRS.

Mr. Karl Polen seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions and 2 excused the motion was approved.

11. Possible Presentation Regarding Board Committee Updates

Mr. Steve Zeman, Vice-Chair, External Affairs Committee, stated that the next External Affairs Committee meeting will occur June 2, 2006.

Mr. Larry Trachtenberg, Chair, Investment Committee, had no updates to report.

Mr. Michael Townsend, Chair, Operations Committee, stated that the next Operations Committee meeting will occur May 25, 2006.

12. Board Requests for Agenda Items

There were no requests for agenda items.

13. Call to the Public

No members of the public requested to speak.

14. The next ASRS Regular Board meeting is scheduled for Friday, July 21, 2006, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

15. Adjournment of the ASRS Board

Dr. Meredith adjourned the May 19, 2006 Board meeting at 10:50 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Anne Schrode, Secretary

Date

Paul Matson, Director

Date